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C O N F I D E N T I A L SECTION 01 OF 03 MOSCOW 000930

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SUBJECT: MOSCOW COMFORTABLE WITH UKRAINIAN DEVELOPMENTS

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Classified By: Minister-Counselor for Political Affairs Kirk Augustine.
Reasons: 1.4(B/D).

11. (C) SUMMARY. Moscow continues to tell itself that it got the best of Kiev in the year-end negotiations on gas supply, according to the Russian MFA and a number of Embassy contacts. As they see it, the gas deal was an economic boon for Gazprom and the GOR, despite allegations of corruption and ambiguities about the contract. They expect damage to Russia's reputation as a reliable energy partner to be short-lived. The lighthouse seizure in the Crimea was regarded as a transitory issue linked to Ukrainian electioneering, with a resolution likely after the scheduled February 14 visit of Russian DFM Karasin to Ukraine. Our contacts see the political status quo in Ukraine, with no person or bloc in a commanding position, as being in Moscow's interest. END SUMMARY.

Broad Acceptance of the Gas Offensive

12. (C) "We won" the gas dispute, MFA Ukraine Desk Senior Counselor Vadim Gusev told us in a January 19 meeting. He said the GOR achieved its main objective -- world market prices for Russia's gas. Echoing points made by FM Lavrov in a January 17 press conference (ref A), Gusev pointed to the 22 percent rise in Gazprom's capitalization just ten days after inking the deal as an indicator that the markets had in the end responded positively to the gas deal. Like other GOR officials at all levels, Gusev insisted that the gas controversy was a purely commercial dispute.

13. (C) Some Russian print editorials initially questioned taking a hard line with a Slavic neighbor that shares important industrial and commercial infrastructure, not to mention social and cultural ties, and some analysts warned during and after the crisis that the GOR's line on Ukraine could push Kiev more precipitously into the West's embrace. Since returning from an extended New Year's break, however, the Moscow media have generally been supportive of the gas deal, although some on the print side have accented concerns about corruption in the gas sector and government.

14. (C) Many of our non-government contacts agreed with the MFA's verdict, assessing that Moscow scored points with the gas deal and expecting any damage to Russia's reputation to be short-lived. Carnegie's Nikolay Petrov (frequently critical of Kremlin policies) contended that the government's strategy and tactics were "not bad," although its PR campaign was not skillfully handled. Petrov said Yushchenko had been effectively boxed into a corner and had to sign the deal, and any other Ukrainian politician sitting in the President's seat would have done the same. Petrov conceded that the dust-up had dented Russia's international image and predicted the Kremlin would take active measures in the near term to address the problem. Ivan Safranchuk, Director of the Center

for Defense Information, agreed that the negative fall-out of the gas deal would range from "short-term to shorter-term," since investors would increasingly be chasing Gazprom dividends (he noted how quickly investors had forgotten Yukos). Safranchuk pointed out that Ukraine was only one element of the Kremlin's broader energy strategy, and said the Kremlin sees no need to make concessions to Ukraine. RFE/RL correspondent Vitaliy Portnikov declared that the big winner in the gas deal was "corruption," but concurred that Moscow had clearly bested Kiev. All three contacts strongly believed that high-level officials on both sides lined their pockets from the deal.

15. (C) Many of our contacts viewed the gas dispute with Ukraine as a sign that the GOR had taken a generally sensible new direction in its external policy. MGIMO Dean of Political Science Aleksey Bogaturov (an advisor to Duma CIS Committee Chairman Andrey Kokoshin) told us the gas dispute was "nothing special" and cast it as a reasonable response to Kiev's Western tilt. Dmitriy Furman of the Institute of Europe (Russian Academy of Sciences) agreed that the dispute reflected Moscow's revised post-Orange Revolution thinking and represented a pragmatic, non-ideological turn vis-a-vis the CIS. Petrov of Carnegie added that Kiev could not have it both ways, blaming the GOR both for neo-imperialism and for moving to world market gas prices.

16. (SBU) At the same time, other analysts noted the downsides of the gas deal for Russia, with Carnegie's Dmitriy Trenin, for instance, telling an interviewer that even if the general policy of moving to world market prices was correct, the "style" in which it was implemented had been counterproductive, causing a "ricochet" that damaged Russia's international standing, including its chairmanship of the

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G-8. On the "left-patriotic" front, there was criticism of Putin for having "backed down" in the face of international concern and allegations that the whole purpose of the gas price hike was to financially benefit high-level industry and government officials on both sides of the dispute.

Lighthouse Dispute Seen on a Different Track

17. (C) Voicing the official GOR line, Gusev insisted that the lighthouse in Crimea seized by Ukraine belonged to the Black Sea Fleet (BSF) per the 1997 agreement and that procedures for joint use of the lighthouses were covered by that agreement. He said Russia was not "looking for a fight," however, and concluded that the matter could be resolved during DFM Karasin's February 14 visit to Ukraine under the aegis of the Inter-Governmental Commission's Committee on the BSF.

18. (C) None of our unofficial contacts saw the controversy over the lighthouse as Ukrainian pay-back for Russia's putative win in the gas deal. Instead, our contacts characterized the row as internecine Ukrainian political posturing, more about pre-electoral back-stabbing than an expression of Kiev's policy toward Moscow. Several observers pointed to the positive glow -- "brotherly relations" according to the MFA's Gusev -- surrounding the January 11 Putin-Yushchenko meeting in Astana to support their view that Yushchenko was not behind the lighthouse seizure. Gusev noted that Yushchenko gained "no advantage" from that controversy and thus was unlikely to have instigated it. Referring to reports that the Ukrainian Presidential Administration was not initially in the loop on the Yalta lighthouse seizure, Gusev wondered who really was in charge in Kiev, and conjectured that the controversy might be a political gambit by Ukrainian FM Tarasyuk. Several other contacts also fingered Tarasyuk as being involved and agreed that the seizures would be to Yushchenko's detriment in the upcoming election. Notwithstanding the mutual official recriminations (including rumblings by Defense Minister

Sergey Ivanov linking the issue ultimately to continued Russian acceptance of the bilateral border), none of our interlocutors were particularly excited by the lighthouse controversy, considering it a matter of secondary importance that would soon be resolved.

Ukrainian Elections

¶9. (C) New Moskovskiye Novosti Chief Editor Vitaliy Tretyakov told us that the Kremlin was not backing any candidate in the Ukrainian election. Carnegie's Petrov and MGIMO's Bogaturov agreed. All three said Moscow wanted stability in Ukraine and found the current situation there -- with no party or bloc dominant -- very much to its advantage. In terms of forecasting, Portnikov saw a possible Yanukovich alliance with either former PM Tymoshenko or Parliamentary Speaker Lytvyn, while Petrov found a Yanukovich-Tymoshenko alliance to be the most likely outcome, based on opinion polls and the view that Lytvyn was not a genuinely autonomous candidate with a sufficiently strong base. According to Petrov, despite her designs on the Prime Ministership, Tymoshenko was exceptionally pragmatic and would take a back seat to Yanukovich if her showing in the polls was not sufficiently strong.

¶10. (U) Other analysts have argued that the gas crisis had led to an evolution in the Kremlin's previous reflexive preference for Yanukovich in a way that makes clear the political flexibility of all concerned. With Yushchenko acting as the chief Ukrainian advocate of a gas deal that Moscow sees as advantageous and Yanukovich and most of the rest of the Ukrainian political spectrum critical of it, there appeared, as the Center for Political Technologies noted, "a basis for normal bilateral relations for the first time since the Orange Revolution...now Viktor Yushchenko can become more pro-Russian than his opponent, Russia's recent ally Viktor Yanukovich."

Comment

¶11. (C) The GOR and many Russian politicians and analysts were surprised by the strength of international criticism of Russia's hard line on the Ukraine gas deal, but most dismissed it quickly as "yet another" manifestation of a growing "anti-Russian bias" in the West. Further efforts by Moscow to bring Ukraine back into a Moscow-centric orbit will certainly follow. Given the unique place that Ukraine occupies in Russia's history and self-concept, successful implementation by Kiev of an unambiguously "European" modernization strategy would establish within Russia's own

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cultural-historical sphere a powerful counter-model to the direction Moscow has taken under Putin. Conversely, nothing could more vigorously stimulate the pleasure centers of the Russian political elite's collective psyche or do more for Putin's domestic standing and legacy (at least as perceived in the short term) than for him to be able to reel Ukraine back into a reasonably secure position of subordination.

¶12. (C) Putin will thus continue to try to use both "sticks" and "carrots" to show Ukrainians that succumbing to a Western temptation would cost them more (in a broad and not simply economic sense) than they would gain. As in the gas war, he will try to avoid confrontation with the West, if at all possible, and cast all overt Russian actions as being consistent with contemporary international standards. Even supporters of such efforts recognize, however, that if Russian actions prove too ham-handed, they could easily turn counterproductive both with regard to Ukraine's evolution and to Russia's relations with the U.S. and Europe. The standard by which the Russian political class -- and probably the public in the 2007 and 2008 elections -- judges such actions will be entirely pragmatic, i.e., the degree to which they

are successful.
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